

# A FACTS II Success Story at the U. S. Department of Education

August 2005

# Introductions

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# U. S. Department of Education

- **Annual Budget of \$73 Billion**
- **4,500 Employees**
- **210 Appropriations**
- **Lines of Business**
  - **Grants**
  - **Direct Loans**
  - **Guaranteed Loans**

# Where We Started:

- 1) Disclaimer of Opinion in FY 1998.
- 2) Failed Accounting System conversion in FY 1998.
- 3) Over 90% of Education funds had cash differences.
- 4) Sub-ledgers did not exist.
- 5) Accounting transactions were not SGL compliant.
- 6) Financial Statements and FACTS II were produced outside the Accounting System.

# What We Did to Correct Our Problems:

- 1) Establish sub-ledgers for Accounts Receivable, Accounts Payable, Contracts and Purchasing Support System, and Grants Administrative and Payment System.
- 2) Analysis and alignment of general ledger balances to agree with sub-ledger balances.
- 3) Analysis and alignment of cash balances to agree with budgetary account balances.
- 4) Use of “CheckFree” for cash reconciliations and reporting.

# What We Did to Correct Our Problems: (cont'd)

- 5) Review of all accounting transaction codes.
- 6) Establish the Accounting Integrity Board.
- 7) Conversion to Oracle Federal Financials.
- 8) Develop relationship tests for general ledger accounts and financial reporting.
- 9) Develop reconciliation procedures for sub-ledgers and account balances.
- 10) Document policies and procedures.

# What We Did to Correct Our Problems: (cont'd)

- 11) Establish the Fast Facts Executive briefing report.
- 12) Establish Audit Steering Committee.
- 13) Establish Financial Statement Committee.
- 14) Establish Credit Reform Workgroups.

# Where We Are Today:

1. FY 2005 3<sup>rd</sup> Quarter FACTS II Transmission of 210 funds was successfully completed in only two hours on the first day of the FACTS II window opening.
2. Three consecutive unqualified audit opinions.
3. First cabinet-level agency to “GREEN” in Financial Management.
4. Earned AGA’s Certificate of Excellence in Accountability Reporting for FY 2003 & 2004 PAR.
5. Received 2004 Hamilton Award in Technology for cash reconciliation process.
6. Won the President’s Quality Award for Management Excellence – Improved Financial Performance Agency-wide.



# Where We Are Today: (cont'd)

- 7) FY 2003 and 2004 Annual financial statements issued in less than 45 days of the end of the fiscal year.
- 8) Quarterly financial statements usually issued in less than 15 days of the end of the quarter.
- 9) Facts II transmission is completed before the financial statements are finalized.
- 10) 92% of Education funds have no cash differences.

# History of FACTS II at ED

- **FY 2001-2002 (First Quarter) used access data base to create FACTS II bulk file.**
- **January 2002 converted to Oracle Federal Financials.**
- **FY 2002 (Second Quarter to Present) - FACTS II Bulk Files created out of ORACLE FACTS II Module.**

# History of FACTS II at ED (Cont.)

- **FY 2002 FACTS II Transmission took 3 weeks.**
- **FY 2003 FACTS II Transmission took 4 days.**
- **FY 2004 FACTS II Transmission took 2 days.**
- **FY 2005 (3<sup>rd</sup> Quarter) FACTS II Transmission took 2 hours.**

# The Process

## A. Interim Review:

During the month the following reports are produced and analysis takes place:

# The Process (cont'd)

1. A set of Trial Balances are produced daily. A summary trial balance and a sector (Gov/Non-Gov) trial balance are run in Oracle, converted to Excel, and distributed by email to staff. The trial balance reports over 240 individual funds and is distributed with Excel column sort tabs for easy analysis. The trial balances also contain analysis pivot tables to monitor the following critical data relationships:

# The Process (cont'd)

- Payable Proprietary to Budgetary relationship
- Relationship of Change in Expired Authority to Change in Budgetary Recovery Accounts
- Summary Account Balance
- Cash Balance by Fund
- Summary of “No-Year” Appropriations

# The Process (cont'd)

2. Each morning an Exception Report is manually prepared. The exception report currently reports the status of 50 exception rules. These rules are applied at the fund level.

# The Process (cont'd)

Below is a list of the 50 exception rules:

- 1) 4610 balances in expired appropriations
- 2) 4450 balances in expired appropriations
- 3) 4510 balances in expired appropriations
- 4) 4590 balances in expired appropriations
- 5) 4700 balances in expired appropriations
- 6) 4650 balances in unexpired appropriations
- 7) 2400 balances in appropriations
- 8) 2980 balances in appropriations
- 9) Budgetary balances in Deposit Funds
- 10) Budgetary balances in Budget Clearing Accounts



# The Process (cont'd)

- 11) Budgetary balances in Receipt Accounts
- 12) Non 2400 liability balances in Deposit Funds
- 13) Non 2400 liability balances in Budget Clearing Accounts
- 14) Non 2980 liability balances in Receipt Accounts
- 15) Expense or revenue balances in Deposit Funds
- 16) Expense or revenue balances in Budget Clearing Accounts
- 17) 31XX or 57XX balances in Trust Funds
- 18) 7400 balances in any appropriation
- 19) 3109 balances in any appropriation
- 20) Anticipated balance in Expired Appropriations (4210, 4310, 4060, and 4070)

# The Process (cont'd)

- 21) 4210 balance is a debit
- 22) 4221 balance is a debit
- 23) 4222 balance is a debit
- 24) 4251 balance is a debit
- 25) 4252 balance is a debit
- 26) 4310 balance is a debit
- 27) 4871 balance is a debit
- 28) 4872 balance is a debit
- 29) 4881 balance is a credit
- 30) 4882 balance is a credit
- 31) 4971 balance is a debit

# The Process (cont'd)

- 32) 4972 balance is a debit
- 33) 4981 balance is a credit
- 34) 4982 balance is a credit
- 35) 5900 balance is a credit
- 36) 590001 balance is a credit
- 37) 5200 balance is a credit
- 38) 5310 balance is a credit
- 39) 5320 balance is a credit
- 40) 5600 balance is a credit
- 41) Proprietary and budgetary payables do not equal
- 42) Change in expired authority is not equal to balance in budgetary recovery accounts

# The Process (cont'd)

- 43) 1010X1 balance is zero. (Not December, March, June, or September) (Book to Bank)
- 44) 1010X4 balance is zero. (Not December, March, June, or September) (Book to Bank)
- 45) 1010Y1 balance is zero. (Not December, March, June, or September) (Book to Bank)
- 46) 1010Y4 balance is zero. (Not December, March, June, or September) (Book to Bank)
- 47) 999800 balance is zero (Interfund Account)
- 48) 999801 balance is zero (Interfund Account)
- 49) 999802 balance is zero (Interfund Account)
- 50) Summary 1010 balance is negative

# The Process (cont'd)

3. Each week a set of five Relationship Reports are run. These reports include:

# The Process (cont'd)

- Cumulative Results of Operations relationship.\*
- Net Position proprietary to budgetary relationship.
- Revenue to Contra Revenue relationship for Miscellaneous Receipt Accounts.
- Analysis of Anticipated Resources.
- Payable Proprietary to Budgetary relationship.

\* *Special report run for reimbursable balances.*

# The Process (cont'd)

4. At the conclusion of each month, monthly financial statements are run. Five sets of statements are produced at the individual fund, fund family, principal operating component, and summary level.

# The Process (cont'd)

5. Along with the monthly financial statements, the following Relationship Test Reports are produced:
  - Trial Balance Relationship Tests - 25 individual tests at the fund level.
  - Financial Statement Relationship Tests - 19 individual tests at the fund level.



# The Process (cont'd)

Following is a list of the 25 Trial Balance Relationship Tests:

# The Process (cont'd)

- 1) Total Assets = Total Liabilities and Equity
- 2) Appropriations Used = Operating Expenses
- 3) Unexpended Appropriations = Undelivered Orders and Unobligated
- 4) Appropriations Received (Proprietary) = Appropriations Realized (Budgetary)
- 5) Change in Unpaid and Paid Expended Authority = Operating Expense (Statement of Financing Test)
- 6) Funded Accounts Payable (Proprietary) = Expended Authority Unpaid (Budgetary) Ending Balance
- 7) Funded Accounts Payable (Proprietary) = Expended Authority Unpaid (Budgetary) Current Year Activity

# The Process (cont'd)

- 8) Change in Unpaid and Paid Expended Authority = Appropriations Used (Exclude Financing and Trust Funds)
- 9) Paid Expended Authority = Cash Disbursements (Proprietary)
- 10) Imputed Financing (Proprietary) = Imputed Cost (Proprietary)
- 11) Undelivered Orders Paid = Accounts Receivable (Proprietary) Ending Balance
- 12) Undelivered Orders Paid = Accounts Receivable (Proprietary) Current Year Activity
- 13) Change in Allotments (46XX) = Change in Budgetary Recovery Accounts (Expired Funds Only)

# The Process (cont'd)

- 14) Revenues (Proprietary) = Spending Authority from Offsetting Collections (Excludes Financing Funds)
- 15) Allotments Realized (4610) (Expired Funds) = 0
- 16) Allotments Realized (4650) (Unexpired Funds) = 0
- 17) Budgetary Income (Budgetary) = Cash Collections (Proprietary)
- 18) CY Cumulative Results of Operations (No direct hits to 3310 during the year) = 0
- 19) CY Total Actual Resources Collected (No direct hits to 4201 during the year) = 0
- 20) Equity Balance = 0 (Current Year Activity) (Financing Funds Only)

# The Process (cont'd)

- 21) Equity Balance = 0 (Ending Balance) (Financing Funds Only)
- 22) Fund Resources = Fund Equity (2108 Balance Test)
- 23) Sum of Budgetary Accounts (4XXXXXX Accounts) = 0
- 24) Sum of Memorandum Accounts (9XXXXXX Accounts) = 0
- 25) Budgetary Accounts Used Only in Current Year  
Appropriations Used for Expired Appropriations = 0

# The Process (cont'd)

The Following is a list of the 19 Financial Statement Relationship Tests:

# The Process (cont'd)

- 1) Total Assets (BS) = Liabilities and Net Position (BS)
- 2) Budgetary Resources (BR) = Status of Resources (BR)
- 3) Offsetting Receipts (BR) = Offsetting Receipts (SF)
- 4) Net Position (BS) = Net Position (NP)
- 5) Net Cost of Operations (NC) = Net Cost of Operations (SF)
- 6) Net Cost of Operations (NC) = Net Cost of Operations (NP)
- 7) Spending Authority from Offsetting Collections (BR) =  
Spending Authority from Offsetting Collections (SF)
- 8) Obligations Incurred, Adjusted (SF) = Obligations Incurred  
(BR)

# The Process (cont'd)

- 9) Appropriations Received (NP) = Appropriations Received (BR)
- 10) Borrowing Authority (BR) = Zero (Year End Only)
- 11) Contract Authority (BR) = Zero (Year End Only)
- 12) Other Budgetary Authority (BR) = Zero (Year End Only)
- 13) Anticipated Transfer Balances (BR) = Zero (Year End Only)
- 14) Anticipated for Rest of Year (without advances) (BR) = Zero (Year End Only)
- 15) Transfers In/Out Without Reimbursement (SF) = Transfers In/Out Without Reimbursement (NP)



# The Process (cont'd)

- 16) Imputed Financing From Costs Absorbed by Others (SF) =  
Imputed Financing From Costs Absorbed by Others (NP)
- 17) Appropriations Transferred In/Out (NP) = Net Transfers (BR)
- 18) Transfers In/Out Without Reimbursement (SF) = Net  
Transfers (NP)
- 19) Appropriations Used (Cumulative Results Column (NP) =  
Appropriations Used (Unexpended Appropriations Column  
(NP)

# The Process (cont'd)

Differences and errors are corrected during the month. This results in only current problems having to be addressed for quarterly reporting. It also facilitates the acceleration of quarterly financial reporting.

Issues related to reimbursable and Intergovernmental accounts are referred to the Intergovernmental Reimbursable Team.

# The Process (cont'd)

## B. Quarterly Review:

At the end of each quarter, the quarterly FACTS II transmission and quarterly financial statement reporting is produced as follows:

# The Process (cont'd)

1. On the second business day following the end of the month, the sub-ledgers are closed. Closed sub-ledgers include the following:

# The Process (cont'd)

- Accounts Payable
- Accounts Receivable
- Contracts and Purchasing Support System
- Grants Administration and Payment System
- Federal Admin
- Federal Student Aid

# The Process (cont'd)

2. On the third business day following the end of the month, the SF-224's are transmitted to Treasury.
3. On the afternoon of the third business day following the end of the quarter, the projected Treasury balance report is prepared.
4. The projected Treasury balance report is then compared to the cash balance as reported on the general ledger, and "book to bank" entries are prepared for any differences. Usually, less than 10% of Education funds require a "book to bank adjustment".

# The Process (cont'd)

5. Once the "book to bank" entries are prepared, Treasury and general ledger cash should be equal.
6. A comparison between Treasury Net Disbursements and Trial Balance Budgetary Net Disbursements is prepared.
7. All other adjustments - first cut off of adjustments on COB third business day.
8. On the night of the third business day, FACTS II reports (SF-133 and 2108), and financial statements are run.

# The Process (cont'd)

9. On the fourth business day, FACTS II reports and financial statements (with trial balance and financial statement relationship tests) are available for review.
10. FACTS II reports (SF-133 and 2108) undergo supervisory review and are distributed to staff.
11. First round of financial statements are prepared along with trial balance and financial statement relationship tests.
12. Financial statement numbers/balances/relationships are reviewed.
13. Post the Following Accruals in the applicable period:



# The Process (cont'd)

<b>Accrual</b>	<b>Monthly</b>	<b>Quarterly</b>
<b>Payroll Accrual</b>	<b>X</b>	
<b>Payroll Re- Allocation</b>	<b>X</b>	
<b>Interest Amortization of Subsidy (Direct Loans)</b>		<b>X</b>
<b>Perkins A/R Allowance</b>		<b>X</b>
<b>Direct Loan Self Funded</b>		<b>X</b>
<b>Overhead Allocations</b>		<b>X</b>

# The Process (cont'd)

<b>Accrual</b>	<b>Monthly</b>	<b>Quarterly</b>
<b>Annual Leave</b>		<b>X</b>
<b>FECA</b>		<b>X</b>
<b>OPM Retirement / Pension</b>		<b>X</b>
<b>Contractual Services</b>		<b>X</b>
<b>A/R Allowance for Loss</b>		<b>X</b>

# The Process (cont'd)

<b>Accrual</b>	<b>Quarterly</b>	<b>Annual</b>
<b>Grant Liability</b>		<b>X</b>
<b>Financing Subsidy Re-Estimate</b>		<b>X</b>
<b>Federal Family Education Loan Liquidating Account Valuation</b>		<b>X</b>
<b>Federal Student Loan Reserve Fund Valuation</b>		<b>X</b>

# The Process (cont'd)

<b>Accrual</b>	<b>Quarterly</b>	<b>Annual</b>
<b>Guaranty Agency and Lender Year End Obligations</b>		<b>X</b>
<b>Splitter Process</b>		<b>X</b>
<b>Allowance for Subsidy – Liability Allocation (FFEL)</b>		<b>X</b>

# The Process (cont'd)

14. Trial balances are run every morning and distributed by email to staff.
15. The exception report is updated every morning. The set of five relationship reports is updated on an as needed basis.
16. The projected Treasury balance report is updated daily for any new GWA activity. If any is present, a revised "book to bank" adjustment is prepared.
17. The projected comparison between Treasury Net Disbursements and Trial Budgetary Net Disbursements report is updated daily.

# The Process (cont'd)

18. A FACTS II folder is established for each fund documenting the following data analysis:

- Cash ending balance is correct.
- Net disbursement balance is correct.
- Trial balance supports the FACTS II reports.
- SF-132 for any current year appropriation.
- Prior year FMS Form - 2108 to verify beginning unobligated and obligated balances.
- Copy of ADI for any required adjustments.

# The Process (cont'd)

19. Each fund undergoes staff and supervisory review and is then submitted for Budget review.
20. Once Budget review is complete, the fund is added to the FACTS II bulk file list of funds that are ready to transmit to Treasury.
21. Complete review and analysis of all trial balance relationship tests, financial statement relationship tests, exception report items.

# The Process (cont'd)

- 22. All reviews and adjustments are to be completed the day before the FACTS II window opens.
- 23. All bulk files are ready to be transmitted the morning of the first day that the FACTS II window opens.
- 24. Complete FACTS II transmission on first day the transmission opens.
- 25. Post any required adjustments from transmission failures.



# The Process (cont'd)

26. Prepare formatted financial statements.
27. Review of numbers and balances.
28. Notification of material reconciling items.
29. Prepare footnotes (annual financial statements).
30. Prepare Fluctuation Analysis of reporting group level financial statement to prior period.
31. Management review of financial statements and footnotes.
32. Submit final financial statements.

# The Process (cont'd)

33. The following monthly reconciliations are prepared to substantiate reported financial statement balances:

- FBWT Reconciliation
- GAPS Reconciliation
- Accounts Receivable Reconciliation
- Accounts Payable Reconciliation
- Grant back Deposit Fund Reconciliation
- Facilities Reconciliation
- Budgetary to Proprietary Reconciliation
- Direct Loan Reconciliation
- Analysis of Suspense and Budget Clearing Accounts

# The Process (cont'd)

- FFEL Programs Reconciliation
- DCS Reconciliation
- Pell Reconciliation
- Campus Based Reconciliation
- FISL Reconciliation
- Perkins Reconciliation

Questions?